

## **Chapter 5**

### **Cost**

#### **Background**

In addition to the significant personal burden and high mortality rates, patients with serious mental illnesses represent tremendous costs to the health care system. Total expenditures, including both psychiatric and medical care, for these individuals can reach \$25,000 per patient annually. The U.S. spends approximately 1% of its total GDP for the treatment of mental illnesses, with the majority being devoted to SMI (McGuire, 1991). The prevalence of schizophrenia in the population is about 1%, yet the economic cost for this disease is nearly \$45 billion annually (Wyatt & Henter, 1995). This figure is comparable to the dollars spent on depression, for which the prevalence is around 7-8%.

In addition to psychiatric services, SMI patients use medical services more than the general population. A recent study (Mauskopf, David, Grainger, & Gibson, 1999) indicates that, depending on the diagnosis, the average annual expenditure per SMI patient exceeds \$26,000. Outpatient spending was nearly \$3000, with pharmacy costs approximately \$375.

We report on total costs, as well as the relative costs of psychiatric and medical care and of inpatient and outpatient care. We also report separately annual costs by cost center. Comparisons across VISNs and stations regarding expenditures on outpatient psychiatric care may inform questions of differential treatment capacities.

The Allocation Resource Center (ARC) in Braintree, Massachusetts, provided cost data for each patient by facility and cost center. The ARC calculates patient costs using data from the VA's Decision Support System (DSS). In prior years, ARC assessed patient costs on the basis of the Cost Distribution Report (CDR). Please see Appendix B for details.

#### **Findings**

- FY01 costs for this population exceeded \$3B, representing almost 15% of the VA's health care budget.
- 34.6% of all costs were for psychiatric care.
- \$15,673 was spent per patient in FY01; 44% for outpatient, 36% for inpatient, 20% for non-VA and long-term care
- VISNs varied substantially in total, inpatient and outpatient costs per patient.
- When mean per patient costs are divided among different cost centers, the top three are psychiatry (\$3,514), outpatient psychiatry (\$1,912) and medical (\$1,641).
- 1.6% of all costs were incurred outside of the patient's home VISN, and 4.2% outside of the home station.

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